



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Edward K. Shikada

SUBJECT: STATUS REPORT ON DEFERRED
MAINTENANCE AND
INFRASTRUCTURE BACKLOG

DATE: April 19, 2012

Approved

Date

4/20/12

SUPPLEMENTAL

REASON FOR SUPPLEMENTAL

To provide Council with additional information on efforts related to a potential General Obligation bond measure for certain infrastructure assets.

OUTCOME

This memorandum will provide Council with additional information on a potential General Obligation bond measure ahead of the initial polling anticipated to be conducted in May 2012.

BACKGROUND

On February 28, 2012, Council approved a memo by Mayor Reed and Councilmember Pyle, dated February 24, 2012, which directed staff to conduct additional polling in the month of July on a ¼ percent and a ½ percent Sales Tax increase, a Business Tax increase, and a General Obligation Bond to support street improvements and to conduct outreach to various stakeholders including, but not limited to, business groups, neighborhood groups, taxpayer associations, and labor organizations. On March 20, the Council adopted the Mayor's March Budget Message which directs the Administration to report back to Council on the feasibility of a General Obligation Bond Measure to rehabilitate streets in poor condition, with a specific focus on the neighborhood streets. On March 27, Council accepted a report on Pavement Maintenance and directed staff to pursue funding options, including a bond measure, to address the funding needs. http://www.sanjoseca.gov/clerk/Agenda/20120327/20120327_0602.pdf

Staff presented the Annual Deferred Maintenance and Infrastructure Backlog report to the Transportation and Environment Committee on April 2, 2012. The report shows a one time capital investment need over the five year CIP of \$811 million. Although the Transportation Infrastructure asset category constitutes the biggest need, there are several other City asset categories that have substantial needs and may be viable for inclusion in a funding measure.

ANALYSIS

Although several asset categories have substantial capital investment needs, only a few of them lend themselves to being financed through a General Obligation (G.O.) Bond based on certain criteria. The criteria used in the analysis to determine appropriateness for financing through a G.O. bond proceeds include the following:

1. Revenue sources for capital investment

A key consideration is whether revenue sources, other than the General Fund, are available for capital investment in the assets. Thus, assets such as the Airport, Water Pollution Control Plant, Sanitary and Storm collection systems, which are funded through the users of those facilities and not from the General Fund, would not be included in a G.O. Bond measure.

2. Life of the asset

The term of a G.O. Bond can only be for the average weighted life of the assets funded through a particular bond issue. Thus assets with a life of less than 20 years do not lend themselves very well to a G.O. Bond type of financing because the repayment needs to occur over a shorter term with higher annual payments placed on the property tax roll.

3. Type of capital investment

A G.O. Bond can only be issued for fixed and "in ground" assets. Thus, Fleet and Information Technology cannot be included in a G.O. Bond measure.

4. Potential community support

A G.O. Bond Measure currently requires a 2/3 voter approval for passage. Thus, even if some assets may be technically eligible for a G.O. Bond, they may not be able to garner adequate community support. Therefore, for any asset to be considered for inclusion in a G.O. Bond measure it is important to evaluate whether investment in the asset will substantially improve quality of life for the community and is there a good likelihood that the community will be willing to pay for this investment. The State Legislature is currently considering two bills that would seek to lower voter approval to 55% for transportation infrastructure measures.

5. Impact on the General Fund

Community support may also be influenced by how investment in the asset will impact the operating costs that are paid from the General Fund. Also, will the upfront investment result in short term and long term savings to the General Fund which will in turn enable the City to invest in other services to the community?

Using the above criteria, staff has identified three broad asset categories to further explore for inclusion in a potential G.O. Bond Measure. Although, per prior Council direction, the base polling will focus on transportation infrastructure, other elements will be tested to determine if their inclusion would increase community support. Some elements in the three asset categories specifically address the infrastructure backlog while other elements will help modernize the infrastructure. The three asset categories include:

1. Buildings

Over the Decade of Investment, the City has successfully invested in many new facilities. Unfortunately, budgetary challenges have affected the ability to address capital maintenance at these facilities, leading to the deferral of maintenance and continued use of many items past their useful life. This practice in turn has led to higher day to day maintenance costs as equipment and infrastructure requires more attention to keep facilities operational. The Deferred Maintenance and Infrastructure Backlog (DMIB) status report identified over \$150 million in needs for all building facilities combined. Staff recommends targeted funding of \$35 million to address the most critical on needs in the areas identified in Table A included further in this report. Table B identifies other needs with a specific focus on energy improvements, ADA accessibility, and safety improvements.

This asset category also includes City facilities operated by others such as the San Jose Museum of Art, Mexican Heritage Plaza, Tech Museum, Children's Discovery Museum, Repertory Theater, and the Convention Center and other facilities operated by Team San Jose. In the past, the San Jose Redevelopment Agency was a key source of capital funding for the development and rehabilitation of these facilities. With the elimination of that entity, other sources for capital funding need to be developed. Staff continues to discuss long-term options with the entities that operate these facilities; however it is very clear that these organizations also have challenges related to funding for infrastructure. Because the City is the owner of these facilities and has contractual obligations for capital repairs and replacements, it is important to include these facilities for consideration in this effort. The \$35 million number in Table A will address an estimated 25% of the deferred maintenance infrastructure backlog among the combination of Building Facilities, City Facilities operated by others, and Convention Center and other cultural facilities.

2. Parks

The Parks G.O. Bond Measure approved by voters in 2000 provided \$228 million in funding for neighborhood and regional parks, community centers, and trails. Although this allowed significant investments to be made, there still remain substantial needs. Preliminary results of a study on the Infrastructure Backlog in this asset category indicate that an unfunded need totaling approximately \$210 million exists at the regional facilities, parks buildings, neighborhood parks, trails and park restrooms. Further refinement of the unfunded needs is underway and a final report will be completed in August 2012 and incorporated into the development of the Fiscal Year 2013-2014 capital improvement program budget. At this time, staff is proposing three categories for polling: playgrounds and restrooms, park irrigation systems, and rehabilitation of existing trails. Building retrofits and accessibility improvements at community centers are included in the Building Facilities category. If the items listed in Table A were to be funded, this would help reduce the infrastructure backlog for this asset category by an estimated 16%.

3. Transportation Infrastructure

Ten consecutive years of budget deficits have resulted in a significant lack of investment in transportation infrastructure. As noted above, on March 27, 2012, a comprehensive report on pavement maintenance was presented to Council. Based on the needs identified in the report, staff is considering five areas for further polling to determine level of community support. Two of these areas, pavement maintenance and ADA curb ramps, listed in Table A will specifically address the transportation infrastructure backlog and reduce it by an estimated 45% while the other three areas, LED streetlights, street safety improvements, and expansion of bikeways and trails will modernize the transportation infrastructure and result in energy cost savings. It is important to note that in addition to one time capital investment, additional revenue sources will nonetheless be needed to meet the approximately \$90 million ongoing need for maintenance on an annual basis.

Polling

Polling for various revenue measures will be conducted in July per prior Council direction. Unlike the other revenue measures however, an Infrastructure G.O. Bond Measure has not been previously polled and thus preliminary polling ahead of the July timeframe is advisable. Staff intends to use the consultant firm of Fairbank, Maslin, Maullin, Metz and Associates (FM3) to test voter support in early May for a G.O. Bond Measure. Although the polling will primarily test the level of support for transportation infrastructure, it will also include other types of assets to test their potential to increase voter support. In addition to the specific types of assets, the poll will also test the level of support for the size of the G.O. Bond measure or measures that San José voters may be willing to support. Results from this preliminary polling effort will be brought forward to Council in June and will allow Council to understand the viability of any potential G.O. Bond measure on the November 2012 ballot.

Although the overall infrastructure needs are substantial, as stated above, some of the assets are not eligible for G.O. Bond financing. Of those assets that are eligible for G.O. Bond financing, the total need for investment would likely be beyond the potential reach of a viable Bond Measure. As a point of reference, an annual property tax assessment of approximately \$100 on an assessed property value of \$500,000 would support a 30 year \$250 million G.O. bond. The asset elements listed in Tables A and B represent a \$400 million investment and would result in an approximately \$160 annual property tax assessment on a similar property. Staff will work with the consulting firm of FM3 to develop questions for the preliminary polling in May that can appropriately test level of voter support for a G.O. Bond Measure in the \$200-\$400 million range. It is important to note that the dollar amounts included in Tables A and B provide Council with a frame of reference for type and scope of work and may be modified for polling purposes.

Infrastructure Backlog

Elements that will specifically address the Infrastructure Backlog are listed in Table A below. Cumulatively, the level of investment proposed below will address \$ 275 million of the funding need or approximately 35% of the overall Infrastructure Backlog. These numbers represent staff's best judgment on the highest priority needs that also lend themselves best to a potential G.O. Bond Measure.

TABLE A

Building Facilities	
\$35 M for Infrastructure Rehabilitation and Replacement <i>"ensure yesterday's investments last long into the future"</i>	Rehabilitates and modernizes public safety, cultural, and community re-use facilities that address critical needs. Focus may include such items as roofing and waterproofing or replacement of systems essential to the operation of a facility.
Parks	
\$10M for Park Playgrounds and Restrooms <i>"makes San Jose playgrounds safe and usable for children and persons with disabilities by renovating facilities currently in poor condition including park restrooms"</i>	Replace old outdated playgrounds in poor shape to increase safety and enhance accessibility for children of all abilities and upgrade or replace old restroom buildings.
\$15M for Park Irrigation Systems and Turf Improvements <i>"improves water conservation efficiency and turf quality in 13 neighborhood parks and at Lake Cunningham Regional Park for public enjoyment of turf areas"</i>	Renovate the park irrigation systems and/or poor quality turf situations in neighborhood, community and citywide parks with either a poor irrigation or turf rating to save water and increase green and playable turf at City parks.
\$10M for Trail Rehabilitation <i>"helps San Jose become one of the best big US cities for urban trails and off-street bicycling"</i>	Repairs and rehabilitates key stretches of the city's network of 54 miles of existing trails and pedestrian bridges to support the city's goal of a 100-mile network of trails.
Transportation Infrastructure	
\$195M for Pavement Rehabilitation (405 miles) – <i>"rehabilitates streets to eliminate "poor" conditions"</i>	Rehabilitates all San Jose streets in "poor" condition; Major streets (\$28M, 52 miles); Local/Neighborhood streets (\$167M, 353 miles)
\$10M for ADA Curb Ramps <i>"makes San José's major streets and the vicinity of major activity areas safe and convenient for persons with disabilities, seniors, and strollers"</i>	Installs missing curb ramps and upgrades substandard curb ramps to meet 2020 benchmarks in the Council adopted ADA transition plan. A total investment of \$63M would be needed to address all of transition plan's elements which are designated to be completed by 2040.

Infrastructure Modernization

Table B includes additional items that staff is intending to include in the polling to test level of community support. Although these items were not specifically addressed in the infrastructure backlog, they will modernize the infrastructure and enhance the safety, reliability, accessibility and energy efficiency of the City's existing building facilities. These investments will not only create a better quality of life for the community but in many cases also result in long term savings to the General Fund for operating costs.

TABLE B

Building Facilities	
\$15M for Energy Improvements <i>"invest now for long-term savings in the future"</i>	Facility modifications that take advantage of available technology to reduce energy use, resulting in a positive return on investment.
\$15M for Accessibility Improvements <i>"equal access for all citizens"</i>	Addresses modifications necessary to ensure City facilities are accessible to all citizens, focusing on proactively bringing facilities up to date with the current building code instead of the building codes under which these facilities were constructed.
\$5 M for Health and Safety Improvements <i>"safe, reliable, facilities"</i>	Focuses on modifications that directly relate to public health and safety. Primary focus will be on building systems such as fire alarm and fire protection systems.
Transportation Infrastructure	
\$30M for LED Streetlight Conversions <i>"improves visibility, safety and energy efficiency of San José streets"</i>	Converts "yellow" streetlights to "white" LED lights and provides annual energy savings; a total investment of \$60M would be needed to convert all streetlights (supports Green Vision goal)
\$30M for Street Safety Improvements <i>"makes San Jose streets safer for walking, bicycling, and driving"</i>	Installs new traffic signals, pedestrian activated warning lights, and enhanced crosswalks at highest priority locations.
\$30M for Bikeways and Trails <i>"helps San Jose become one of the best big US cities for bicycling"</i>	Expands network of bike lanes and trails and helps leverage state and federal funding to help build-out a planned 500-mile network (supports Green Vision goal)

EVALUATION AND FOLLOW-UP

Results from the polling will be brought forward to Council in June 2012. If Council directs staff to continue with efforts for a November 2012 G.O. Bond measure, staff will conduct further polling and outreach in July and bring forward draft ballot language for Council consideration in early August.

PUBLIC OUTREACH/INTEREST

- ☐ **Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater.
(Required: Website Posting)
- ☐ **Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. (Required: E-mail and Website Posting)
- ☐ **Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or

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a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

Although this memorandum does not meet any of the above criteria, it will be posted on the City's website for the April 24, 2012 Council meeting.

COORDINATION

This memorandum was coordinated with the Departments of Airport, Environmental Services, Finance, Information Technology, Parks, Recreation & Neighborhood Services, Public Works, and Transportation and the Office of the City Attorney.

CEQA

Not a Project, File No. PP10-069(a) Staff Reports.



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